

Comprehensive Overview of Prescription Drug Legislation Approved By Congress

Prepared by Darryl Hicks

The U.S. Congress has approved sweeping changes to the federal Medicare program by creating a prescription drug benefit plan to help low-income seniors and persons with disabilities afford coverage.

The Medicare Prescription Drug and Modernization Act (H.R. 1) was approved by the Senate on 11/25/03 and sent to President George W. Bush for his expected signature. The bill cleared the House of Representatives by a narrower 220-215 vote on November 22.

As many of you are aware, reverse mortgage proceeds are commonly used by seniors to cover the cost of prescription drugs. Even though a prescription drug plan has been approved, there still would be considerable out-of-pocket costs to consumers.

Overall, the legislation would take effect in 2006 and cost \$400 billion over 10 years. Information published in *The Washington Post* said nearly half of the 40 million retired and disabled Americans currently on Medicare earn less than \$17,960 annually. More than half are women. In 1999, Medicare recipients spent 19 percent of their income – an average of \$2,430 – for healthcare-related expenses, including prescription drugs, according to AARP.

Overview of the Prescription Drug Bill

The Prescription Drug Bill includes the following:

- **Prescription Drug Discount Card.** Starting in April 2004, Medicare recipients are eligible to receive a prescription drug discount card that would yield annual savings estimated at 15 percent to 25 percent. Eligible low-income seniors would get a \$600 subsidy applied to the card but they would still be required to make a co-payment for each prescription drug. Card sponsors would charge an annual enrollment fee of up to \$30.

- **Coverage Plan.** Beginning in 2006, Medicare recipients could buy coverage for their prescription drugs. Seniors would have to pay a \$35 monthly premium, or \$420 per year. After paying a \$250 deductible, Medicare would cover 75 percent of drug costs up to \$2,250. Seniors would have to pay the balance, or \$563. (Calculated by multiplying \$2,250 by 25 percent). After that, there would be a gap in coverage until out-of-pocket expenses reach \$3,600, or roughly \$5,100 in overall prescription drug expenses. Above that level, insurance would pick up roughly 95 percent of costs.
- **Voluntary.** This new Medicare benefit is voluntary – no one will be forced to enroll.
- **Solid Low-Income Assistance.** According to AARP, people with low incomes get comprehensive drug coverage.
 - All individuals with income under 100% of the federal poverty level receive the following: no premiums, deductibles or gaps in coverage, and co-pays of \$1 for generics and \$3 for brand name prescription drugs.
 - All individuals with income between 100% and 135% of the federal poverty level: no premiums, deductibles or gaps in coverage, and co-pays of \$2 for generics and \$5 for brand name drugs.
 - All individuals with income between 135% and 150% of the federal poverty level: no premiums or gaps in coverage, a \$50 deductible and a 15% co-pay on each prescription.
- **All Beneficiaries Have Access to Drug Coverage:** The legislation ensures that Medicare beneficiaries in all areas of the country can get drug coverage. The Secretary of Health and Human Services will arrange to deliver benefits if at least two private options for Medicare drug coverage are not offered in any given region.
- **Safety Protections:** The legislation provides safety mechanisms to prevent drug errors including electronic prescribing of medication.